

Message Text

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PAGE 01 TAIPEI 02340 151049Z

12

ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 CEA-02

AGR-20 ACDA-19 DRC-01 /201 W
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TO SECSTATE WASHDC 1528

INFO AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: EFIN, TW

SUBJECT: GRC PRESENT FY 1975 BUDGET TO LEGISLATIVE YUAN

REF: TAIPEI A-238 OF DECEMBER 28, 1973

1. SUMMARY: STIMULATED BY MAVERICK LEGISLATORS, PREMIER AGREED LEGISLATIVE YUAN'S REVIEW OF PROPOSED FY 1975 BUDGET SHOULD BE IN PUBLIC EXCEPT FOR DEFENSE AND FOREIGN AFFAIRS PORTIONS. CENTRAL GOVERNMENT PORTION OF CONSOLIDATED BUDGET WILL INCREASE TO NT\$76,250 MILLION (US\$2,006 MILLION), 41 PERCENT ABOVE FY 1974. HUGE INCREASE PARTLY DUE TO INFLATION. A MAJOR ITEM IS AVERAGE PROJECTED 40 PERCENT INCREASE IN SALARIES OF GOVERNMENT WORKERS INCLUDING MILITARY. WHEN ADJUSTED TO INCLUDE ITEMS ELSEWHERE IN BUDGET WHICH ACTUALLY SUPPORT SECURITY, DEFENSE EXPENDITURES WILL INCREASE 44.7 PERCENT OVER CURRENT FY AND CONSTITUTE ABOUT 63.5 PERCENT OF TOTAL BUDGET AS OPPOSED TO 61.7 PERCENT AND MAY INCREASE DEFENSE COST TO ABOUT 9.4 PERCENT OF PROJECTED GNP (8.8 PERCENT IN FY 1974).

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PAGE 02 TAIPEI 02340 151049Z

BUDGET INDICATED GOVERNMENT'S DETERMINATION TO PROCEED

WITH DEVELOPMENT PLANS AND DEFENSE MODERNIZATION AND REFLECTS CONFIDENCE THAT NECESSARY RESOURCES WILL BE AVAILABLE WITH PREDICED GNP GROWTH OF 7 TO 9 PERCENT. END SUMMARY.

2.

2. EXECUTIVE YUAN APRIL 2 PRESENTED PROPOSED CONSOLIDATED GOVERNMENT BUDGET FOR FY 1975 OF NT\$111,500 MILLION (US\$2,934 BILLION) TO LY. THIS AMOUNT IS 38 PERCENT OVER THE FY 1974 CONSOLIDATED BUDGET. CENTRAL GOVERNMENT GUDGET ALONE PROPOSED TO INCREASE TO NT\$76,250 MILLION (US\$2,006 MILLION) OR 41PERCENT ABOVE CURRENT FY.

3. IN ADDRESS TO LY APRIL 9 EXPLAINING BUDGET, PREMIER CHIANG CHING-KUO SAID BUDGET BASED ON EXPECTATION OF GNP GROWTH OF 7 TO 9 PERCENT. FURTHER STATED THAT GOVERNMENT HAD "REACHED THE PRELIMINARY OBJECTIVES OF THE ECONOMIC STABILIZATION PROGRAM OF JANUARY 27", AND "SINCE POWERFUL TIDES GENERATED BY WORLD-WIDE INFLATION AND THE EFFECTS OF INCREASED COMMODITY PRICES CANNOT BE EXPECTED TO DIMINISH IN NEAR FUTURE, WE MUST INCREAE OUR EXERTIONS TO MAINTAIN ECONOMIC STABILITY".

4. FOLLOWING CHALLENGE BY MAVERICK INDEPENDENTS IN LY, PREMIER PROPOSED, AND LY AGREED, CONDUCT PUBLIC REVIEW OF PROPOSED BUDGET EXCEPT FOR DEFENSE AND FOREIGN AFFAIRS PORTION, IN CONTRAST TO PAST PRACTICE WHEN ENTIRE BUDGET REVIEW CLOSED. THIS NEW PROCEDURE HAS MADE POSSIBLE PUBLICATION OF DRAFT BUDGET FOR FIRST TIME AND ELICITED WIDE COMMENT IN PRESS.

5. BASED ON PRESS COVERAGE, PENDING RECEIPT OF FULL COPY BY EMBASSY, PRINCIPAL ITEMS IN CENTRAL GOVERNMENT'S BUDGET ARE:

NT\$	PERCENT OF	PERCENT OF
MILLION	TOTAL	CHANGE

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PAGE 03 TAIPEI 02340 151049Z

A) DEFENSE AND FOREIGN AFFAIRS	35,151	46.1	37.9
B) ECONOMIC RECONSTRUCTION	9,989	13.1	62.2
C) SOCIAL WELFARE	9,074	11.9	44.6
D) SUBSIDIES TO LOWER GOVERNMENT	4,728	6.2	176.8
E) EDUCATION, SCIENCE AND CULTURE	4,194	5.5	-7.3

6. GRC EXPECTS INCREASED CURRENT REVENUE OF 41.7 PERCENT OF NT\$71,291 MILLION (US\$1,876 MILLION) LEAVING DEFICIT OF ONLY NT\$4.9 BILLION, PART OF WHICH WOULD BE COVERED BY AUTHORIZATION TO FLOAT NT\$3.5 BILLION IN GOVERNMENT BONDS. THIS BUDGETED DEFICIT WOULD REPRESENT ONLY 0.7 PERCENT OF EXPENDITURES VERSUS NT\$3.77 MILLION (US\$99.2 MILLION) AND 7 PERCENT IN FY 1974.

7. NO DETAILED EXPLANATION PROVIDED FOR UNUSUALLY LARGE INCREASE IN GOVERNMENT EXPENDITURES, BUT MAJOR FACTOR IS INFLATION. GOVERNMENT (CIVILIAN AND MILITARY) SALARIES, FOR EXAMPLE, ARE PROJECTED TO INCREASE 40 PERCENT WHICH ACCOUNTS FOR 8.8 PERCENT OF CONSOLIDATED BUDGET AND WILL COST TOTAL NT\$9,772 BILLION (US\$257 MILLION). COST FOR CENTRAL GOVERNMENT EMPLOYEES ALONE IS NT \$6,900 MILLION (US\$181.5 MILLION) OR ABOUT ONE-THIRD OF TOTAL INCREASE OF NT\$22,171 IN CENTRAL GOVERNMENT BUDGET OVER FY 1974. ANOTHER MAJOR FACTOR IS LARGE INCREASE IN EXPENDITURES FOR 9 MAJOR DEVELOPMENT PROJECTS DESIGNATED BY PREMIER TO RECEIVE PRIORITY ATTENTION (PARA 5-B ABOVE). IN LISTING PROJECTS PREMIER DROPPED PORT OF SUAO ON GROUNDS IT STILL IN PLANNING STAGE AND PUT POWER DEVELOPMENT IN ITS PLACE.

8. PAST EXPERIENCE INDICATES FAIRLY SUBSTANTIAL CHANGES WILL BE MADE IN BUDGET DURING LEGISLATIVE REVIEW. THEREFORE MAJOR ANALYSIS SHOULD AWAIT FINAL APPROVAL AND IMPLEMENTATION. IT IS INTERESTING TO NOTE AT THIS POINT THAT ON BASIS RECENT PATTERNS OF DEFENSE SPENDING, WHEN USUAL ADJUSTMENTS MADE BY ADDITION VARIOUS ITEMS ACTUALLY SUPPORTING DEFENSE ACTIVITIES LIMITED OFFICIAL USE

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PAGE 04 TAIPEI 02340 151049Z

BUT LISTED ELSEWHERE IN BUDGET, IT APPEARS EXPENDITURES THIS FUNCTIONAL CATEGORY WILL CONSTITUTE 63.5 PERCENT OF TOTAL CENTRAL GOVERNMENT BUDGET VERSUS 61.7 PERCENT IN CURRENT FY, AND INCREASE 44.7 PERCENT OVER SAME PERIOD AS OPPOSED TO INCREASE OF 41 PERCENT FOR BUDGET AS A WHOLE.

9. COMMENT: GRC IS MATCHING NEW BUDGET TO ITS STATED POLICIES OF PUSHING AHEAD BOLDLY WITH MAJOR INFRASTRUCTURE AND HEAVY INDUSTRIAL DEVELOPMENT WHILE MAKING SURE GOVERNMENT SALARIES KEEP UP WITH COST OF LIVING INCREASE. THIS DEVELOPMENT ORIENTED BUT FISCALLY CONSERVATIVE BUDGET INDICATES GOVERNMENT FAIRLY CONFIDENT (A) SATISFACTORY GROWTH RATE OF ECONOMY CAN BE MAINTAINED IN SPITE OF ENERGY AND INFLATION CRISIS AND (B) ROC WILL REMAIN COMPETITIVE

IN INTERNATIONAL MARKET SO EXPORS WILL HOLD UP
RELATIVELY WELL. IT ALSO SUGGESTS CONFIDENCE THAT
ADEQUATE RESOURCES WILL BE AVAILABLE TO MEET REQUIRE-
MENTS OF MAJOR DEVELOPMENT PROJECTS AND REFLECTS
DETERMINATION NOT TO SACRIFICE MODERNIZATION OF
ARMED FORCES IN FACE OF RISING COSTS.

10. ALTHOUGH WE RECOGNIZE BRIGHTENED PROSPECTS IN PAST
FEW WEEKS, WE THINK IT FAR FROM ASSURED THAT GRC
WILL BE ABLE TO IMPLEMENT ALL CONTEMPLATED PROGRAMS
WHILE TRYING SIMULTANEOUSLY TO HOLD DOWN SEVERE
INFLATION. PLANNED LARGE INCREASE OF GOVERNMENT
SALARIES CAUSING MAJOR CONCERN IN PRIVATE SECTOR THAT
GOVERNMENT ACTION WILL TRIGGER FURTHER ROUND OF
GENERAL WAGE AND PRICE INCREASES. OF COURSE, NEITHER BUDGET
DISCUSSION NOR GOVERNMENT'S EXTENSIVE PROPAGANDA ABOUT
REMORESELESS PROGRESS ON "NINE PROJECTS" WILL PREVENT
POSTPONEMENT OF SOME DEVELOPMENT EXPENDITURES IF
INFLATION THREATENS TO GET OUT OF HAND.

11. EMBASSY WILL REPORT SIGNIFICANT DEVELOPMENTS
AND FINAL ACTION ON BUDGET.
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